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ELEMENTS OF A POSITIVE LABOUR MARKET ADJUSTMENT STRATEGY

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In recent years the Canadian economy has been subject to numerous changes that have led to important adjustment consequences in the labour market. This is true whatever the source of the change -- global competition, free trade, technological change, privatization, subcontracting, energy price changes, demographic change, and the severe recession of the early 1980s. Adjustment consequences may also stem from legislative initiatives -- equal pay laws (including pay equity or equal pay for work of equal value), equal employment opportunity laws (including employment equity or affirmative action), and the possible banning of mandatory retirement.

These changes have led to substantial adjustment consequences in the labour market as well as political pressure to deal with those consequences. In some circumstances the pressure has been to deal with the "downside" adjustments such as permanent layoffs, plant closings, deskilling, and wage losses. In other circumstances the pressure has been to deal with the "upside" adjustment consequences such as skill shortages and persistent job vacancies.

These adjustment pressures in the labour market parallel (indeed usually emanate from) the adjustment pressures faced by firms. For employers the adjustment consequences manifest themselves in such forms as plant closings, downsizing, mergers and acquisitions, industrial restructuring, just-in-time delivery systems, refinancing, plant redesign, and the search for market niches in an increasingly competitive environment.

This pressure for flexibility and adaptability on the part of employers has led to their need for a corresponding flexibility and adaptability on the part of their employees.

In some circumstances the needs of employers and employees coincide in this area. In other circumstances the needs conflict, in which case the appropriate adjustment policies are more difficult to craft. In either case, the adjustment consequences to both employers and employees have highlighted the need for an adjustment strategy that meets the legitimate needs of both employers and employees.

The concept of an adjustment strategy, just like the concept of an industrial policy, need not imply a "top-down" policy imposed by governments in a "social engineering" fashion. It may very well involve building upon the existing mechanisms of the market forces of demand and supply and collective bargaining where they are operative, and interfering with these mechanisms only when they exhibit well-defined failures to deal with broader social issues.

The purpose of this paper is to outline the elements of a positive labour market adjustment strategy. The emphasis is on general principles of policy design and implementation. However, where possible, attention is paid to the role of training in such a strategy. As well, emphasis is placed on those elements that have a regional dimension, especially those that are subject to a degree of policy control by provincial authorities.

SOME BASIC PRINCIPLES

This first section discusses three related principles of a positive labour market adjustment policy: consistency with market forces of demand and suplly; preference for marginal rather than infra-marginal adjustments; and responding to temporary versus permanent economic shocks.

Consistency With Market Forces

A positive adjustment strategy should involve adjustments that are in the direction of, rather than against, basic market forces. That is, the adjustment assistance should reinforce rather than mitigate market forces. Wherever feasible, it should facilitate the allocation of labour and other resources to their most efficient use. This is part of the more general proposition that policy interventions should minimize distortions to the efficient allocation of resources, including labour resources.

This is so primarily because market forces tend to push the economy in the direction of achieving the highest overall standard of living, given the land, labour and other resources available to society. Thus, in the absence of reasons for preferring a reduced standard of living (for example, as discussed subsequently, we may prefer a society with a more equal distribution of income and wealth even in circumstances when achieving greater income equality implies a lower overall standard of living), adjustment should be in the direction dictated by the forces of demand and supply. In other words, adjustment and adaptability are desirable not for their own sake but because they contribute to higher overall living standards.

In this context, the word overall is particularly significant. Relative to not adjusting, society as a whole benefits from adjusting to economic and technological change. Nonetheless, specific individuals are often adversely affected by change, sometimes substantially so. A positive labour market adjustment policy is concerned with the question of how best to compensate those who are adversely affected by change in a manner that facilitates adjustment to that change.

Consistency with market forces is also generally desirable because adjustment assistance that works against basic market forces is likely, at best, to simply involve a postponement of the inevitable adjustments dictated by the market. In some circumstances, such postponement may be useful to provide a "breathing space" giving the parties time to prepare for the ultimate adjustment. In other circumstances, however, by discouraging the inevitable adjustments, they may be more dramatic when they do occur.

Marginal versus Infra-marginal Adjustments

This preference for not postponing the inevitable is part of the general economic proposition that small "marginal" adjustments are usually less disruptive than "all-or-nothing" infra-marginal adjustments. Marginal adjustments can include reduced new hiring, reductions in overtime and hours of work, earlier voluntary retirement, and slower wage growth amortized over the firm's entire workforce rather than layoffs concentrated on a few workers. Such adjustments are generally perceived to be less costly and disruptive than inframarginal ones such as plant closings, or permanent layoffs.

On a regional basis, political constraints may make such adjustments in the direction of market forces difficult to implement. This is so because they often involve outmigration of younger workers who seek jobs in the more prosperous regions. Such workers may be the most educated and able -- in essence, the "future of the community" and the very people who could help rebuild the economic infrastructure by providing the necessary human resource talent. In such circumstances, it is understandable that communities are reluctant to encourage or even facilitate such outmigration. The dilemma, however, is that if such people are encouraged to stay, through artificial subsidy or income maintenance programs, such support may become permanent and built

into the expectations of the recipients. In the worst case scenario, their considerable talents become devoted to ensuring the continual receipt of the income maintenance rather than developing or utilizing their marketable skills.

This dilemma is perhaps most vividly illustrated in the Atlantic provinces. The concern is that if young people outmigrate, the region may permanently lose its best talent and its hope for the future. However, if the youths stay, they may get caught up in the vicious circle of working for ten weeks (to be eligible for regionally extended unemployment insurance) and then collecting unemployment insurance. This structure may get built into the system, whereby employers are pressured to provide jobs for ten weeks (and only ten weeks) so as to enable workers to be eligible for federal unemployment insurance assistance. Workers in turn may be pressured to take such jobs only for ten weeks so as to "share" such work that enables others to build up eligibility for UI. Such "worksharing" and UI sharing may get built into the ethos of the community -- for both employers and employees. While it may be a viable way of sharing federal UI dollars, and it encourages some work effort to build up eligibility for UI, it is hardly a viable long run policy, especially for younger workers. The problem may be particularly serious if it gets built into their expectations as a permanent feature of their worklife. In such circumstances, either a permanent series of assistance programs will be necessary, or people will be required to adjust at a later stage in their lifecycle, when such adjustments are likely to be more painful. Of course, if the adverse economic conditions are temporary, then such adjustment assistance to younger workers may be a viable policy to bridge the transition. As discussed below, this highlights the importance of having reasonable information on the permanent or transitory nature of the economic condition of the region.

Given the policy dilemma involved in the outmigration of younger workers, perhaps a sensible strategy would be to be neutral and neither discourage nor encourage such adjustment. Of course, such a neutral policy would still involve substantial outmigration from depressed regions since younger people are the most mobile. However, the magnitude of that adjustment would be dictated by fundamental market conditions reflecting the interaction of demand for their service, and supply factors (i.e., their individual preferences and human capital characteristics such as education, skills and experience).

The marginal adjustments are likely to involve less political controversy over "inmigration" as opposed to "outmigration". That is, there is likely to be more political agreement within the "host" region that it is legitimate to reduce the inflow of inmigration when there are not sufficient jobs within the region. Of course, the lack of jobs will be a built-in check discouraging inmigration; however, it still will occur, especially if conditions are even worse elsewhere. The difficulty here is that regional authorities do not have many policy levers to discourage regional migration within the country. Residency requirements for eligibility for income maintenance and licensing and certification policies may be used, but they also have their disadvantages.

Marginal adjustments, especially with respect to wages, may be discouraged by bargaining problems between employees and their employers. Employees may not possess good information on the true state of the market conditions facing their employers. In such circumstances, employers have an incentive to constantly argue that they are facing adverse conditions so as to elicit wage concessions from their employees. Faced with this possibility, employees may rationally give their employer only the option of laying off workers (rather than wage concessions) in the face of an economic downturn. This deters employers from "bluffing" about the true state of the economic

conditions they face, since layoffs are also costly to the firm, while wage concessions, unless they adversely affect the firm's ability to recruit in the future, are essentially beneficial to the firm. This is one possible explanation for the prevalence of layoffs concentrated on a small portion of the workforce, as opposed to marginal wage adjustments, spread over the entire workforce. Other explanations are also possible (e.g., the cost of layoffs are reduced by UI while wage concessions are not; layoffs may fall on younger persons who are most able to absorb the adjustment consequences; even minor wage concessions may be costly for incumbent workers with fixed financial commitments; layoffs may fall on those workers with little say in the tradeoff between layoffs and wage concessions). Whatever the reason, marginal adjustments in the form of small wage adjustments spread over a larger workforce are less likely to occur than are inframarginal layoffs concentrated on a small number of workers.

An adjustment strategy that encourages marginal rather than infra-marginal adjustments may well want to focus on policies that may facilitate the less costly marginal adjustments. Information sharing between employers and employees may help because then employees would be better informed about the true state of the economic conditions facing their employer. UI supported worksharing programs would reduce the bias in UI whereby UI is available only to support unemployment when it is concentrated in the hands of those on layoff, rather than spread over the firm's workforce that may well be willing to reduce their workweek by a day if it is supplemented by UI. Providing information on contingent compensation systems may foster their existence and thereby encourage a degree of wage flexibility that facilitates wage rather than employment adjustments.

Currently, Canadian labour market adjustment strategies tend to focus on the provision of income support (e.g., UI, welfare,regional assistance) to those persons or

regions experiencing the adjustment problems. While providing an important source of income support, these programs have the disadvantage of encouraging labour to remain in situations of declining demand. This is in contrast to countries like Sweden where liberal adjustment assistance is provided, but it is usually tied to retraining or mobility programs that facilitate the reallocation of labour in the direction of market forces.

Temporary versus Permanent Changes

The choice between marginal and infra-marginal adjustments should also be influenced by the extent to which the change is temporary or permanent in nature. The case for marginal adjustments is stronger for temporary than for permanent shocks to the economy. For example, the ups and downs of the business cycle are often regarded as being to a large degree temporary in nature in the sense that the demand for such cyclically sensitive products as consumer durables and housing falls in recessions but returns to normal levels as the economy recovers. For economic shocks which are strictly temporary in nature, marginal adjustments are desirable so that the skills and experience of the workforce in those industries or sectors are not lost. In these circumstances, such programs as worksharing, which involves temporarily reduced hours for all workers but little or no reduction in the total workforce in the sector, have considerable merit. However, in the case of changes which are clearly permanent in nature, there is less of a need for marginal adjustments because the skills and experience of those workers are no longer needed to the same extent. Policies which tend to retain the same number of workers in that sector are not desirable in these circumstances.

Of course, it will often not be easy to determine the extent to which a particular development is temporary or permanent in nature. Nonetheless, despite this uncertainty,

the principle that adjustment policy should incorporate some attempt to assess the extent to which the changes giving rise to adjustment are temporary or permanent is an important one that is often forgotten in discussions of policy formulation.

EQUITY AND FAIRNESS

While adjustment policies should generally work in the direction of market forces to facilitate the efficient allocation of labour, they should also pay attention to distributional issues of equity and fairness. This is especially important since market forces themselves will not ensure that attention is paid to these issues. In contrast, a well functioning market will work in the direction of ensuring an efficient allocation of resources (at least in the absence of well defined market failures). Even a perfectly functioning market, however, will not ensure an equitable distribution of the rewards from that system. In fact, a well functioning market is likely to yield considerable inequality, as it "rewards the winners" and "punishes the losers". While this may be regarded as socially acceptable for businesses and risk takers at the higher end of the income distribution, it is generally regarded as a socially unacceptable outcome for groups at the lower end of the income distribution.

While issues of efficiency and equity often conflict (and this tradeoff may be endemic to unfettered market forces), this need not always be the case. Ensuring a degree of equity and fairness in the adjustment process may go a long way towards reducing the resistance of workers to such change. We tend to emphasise that ensuring efficiency provides a larger economic pie to be divided. The converse is also true; ensuring that the pie is fairly divided may facilitate the flexibility and adaptability that enables the pie to grow. Compensating the losers from the adjustment process may facilitate efficient changes because those who would otherwise suffer from economic

change will be less likely to devote their energies to mounting political and institutional barriers to change. The efficiency gains in turn provide the means to compensate the losers. In such circumstances, issues of efficiency and equity may be compatible and need not involve a tradeoff.

It is well known, for example, that the Japanese system of guaranteed employment for a core of its workforce encourages such workers to accept changes that otherwise would be threatening to their job security. This encourages them to accept such change and to train and cooperate with coworkers towards a common goal of enhanced productivity, the benefits of which they will also share through the bonus system.

In the area of adjustment assistance, equity and efficiency issues need not conflict since it may be more efficient to train or upgrade more disadvantaged workers. In essence, the relevant measure of efficiency is value added, and it may well be the case that the value added (i.e., improvement per dollar of assistance) is greater for more disadvantaged as opposed to advantaged workers. This is so in spite of the fact that the more advantaged workers may appear to benefit more by retraining or other assistance because of their higher skill level. The fact remains that the assistance may do little to improve their already high skill level. This is so because they may already be at the stage of diminishing returns with respect to improvements in their position, and their opportunity cost of time may be higher if they are to be retrained. In essence, there is the possibility that a policy of assistance to more disadvantaged workers is not only more equitable but also more efficient. This is especially the case because such disadvantaged workers otherwise may not have been able to finance the training even if it was in their interest to do so.

TARGET EFFICIENCY: HORIZONTAL AND VERTICAL EQUITY

Even if there is a conflict between equity and efficiency, society may well deem it appropriate to have a smaller economic pie that is more equitably distributed. In such circumstances, it is still important that the redistribution be attained in the most efficient and fair manner as possible. This involves targeting the benefits of adjustment assistance in an efficient manner. There are two elements to such target efficiency: horizontal equity and vertical equity.

Horizontal equity refers to the "equal treatment of equals". It is thus related to the extent to which the assistance helps as many persons in the target group as possible. The target group is the group that is identified as in need of the adjustment assistance in this case. If a program helps only a few within the target group, then others are arbitrarily left out and this has elements of unfairness. In the context of horizontal equity, it is worth distinguishing between members of the target group having equal chances at assistance ex ante (i.e., before the fact) and receiving the same assistance ex post (i.e., after the fact). Unequal outcomes after the fact may still be considered fair if all members of the target group had equal chances to the assistance before the fact.

The second dimension of target efficiency is vertical equity. A program is vertically equitable if the benefits stay within the target group without spilling over into the hands of the nontarget group. Obviously the problem is most severe if the benefits spill over into the more nonneedy groups outside of the target group. Vertical equity refers to the "unequal treatment of unequals" so that an assistance program that provides equal benefits to the nonneedy as to the needy will be vertically inefficient by dissipating the benefits.

An adjustment assistance program would be completely target efficient if it fully helped each and every member of the target group (horizontal equity) without having any of the benefits dissipate into the hands of the nontarget group (vertical equity). Obviously this is difficult, in part because it requires delineating the target group. Nevertheless a viable adjustment strategy involves such target efficiency in both its horizontal and vertical dimensions.

LABOUR MARKET AS FIRST LINE OF DEFENCE

A positive labour market adjustment strategy would also emphasise the labour market as a first line of defence against problems of poverty and income distribution. There is a general consensus amongst taxpayers, recipients, and program administrators that it is better to provide people with the opportunity to earn their income rather than receive it in the form of a transfer payment. Welfare recipients, for example, tend to have a strong desire to get off welfare even if it means only a small increase in their total income (in some cases, even a decline in their income as they lose social assistance payments and other benefits such as prescription plans).

This preference for earned income over transfer payments exists for a variety of reasons. First, it reduces the social stigma that is often associated with being "on the dole". Second, it provides people with labour market experience and the opportunity to maintain and acquire labour market skills and to acquire information on other jobs. Even if the jobs are menial they still involve basic functions such as showing up for work on time, interacting with coworkers, following instructions, and completing assigned tasks. Third, jobs usually involve more than working to earn an income. For many people, they involve social interactions, networks, and a chance for a degree of independence and identity outside of family life.

For these reasons there is general consensus that the creation of "decent jobs at decent wages" is regarded as a basic element of a positive labour market adjustment strategy and defence against problems of poverty. However, here the consensus ends. There is considerable disagreement over what constitutes decent jobs, and there is even more controversy over the best way to "create" such jobs.

Many low wage jobs are regarded as "part of the problem, not part of the solution". Such jobs in the secondary or peripheral labour market may be dead-end jobs providing few opportunities for advancement, promotion or skill acquisition. They perpetuate a vicious circle of entrapment because they foster absenteeism, turnover and poor work habits that, in turn, make it difficult for people to leave such jobs.

There is increasing concern in policy circles that these are the sorts of jobs that are emerging from the industrial restructuring that is occurring. That is, the industrial restructuring is leading to a decline in the well-paying, blue-collar, often unionized jobs characterized by the old "smokestack" industries of the heavy manufacturing sector. This "declining middle" is being replaced by a bimodal distribution of jobs. At the upper end are the high paying often "high-tech" jobs associated with developing, financing, and managing the new technology. At the other end are the low paid jobs often associated with the routine operation and servicing of the new technology, as well as with providing services to the those at the higher end of the hierarchy. There is some concern that the resulting "wage polarization" and bimodal distribution of jobs will lead to social instability and tensions between the "haves" and the "have-nots". For this reason, a labour market adjustment strategy that focused simply on job creation, without regard for the types of jobs that are being created, may create rather than solve problems.

The second area of disagreement associated with the importance of job creation pertains to the best way to ensure such job creation. One strand points to the private sector, especially the small business sector, as the engine of growth in new jobs. The policy emphasis tends to be on creating a business climate that is unencumbered by regulatory constraints. The model tends to be the U.S., where private sector job creation has reduced unemployment and led to substantial productivity growth.

Another camp points to the inequality and social tensions that have been generated by that model, and argues for a more active role of the public sector in the job creation process. That more active role ranges from public sector job creation, to subsidies for local initiatives and community development, to simply a full employment monetary and fiscal policy. It also envisages legislative policies, like minimum wages and employment standards, to provide a degree of protection to the low wage sector -- even if these mean reduced employment growth in that sector.

Obviously there are also in-between cases that try to strike a balance between the private sector as an important engine of sustained economic growth, and the public sector as meeting legitimate social needs and creating meaningful employment. In fact, the real policy challenge in that area is to find that balance.

For provincial authorities the issue is complicated by the fact that providing a viable safety net for the low wage sector or providing public sector jobs may simply attract workers from other jurisdictions that do not provide such standards or jobs. This is part of the more general proposition that free mobility of labour and taxpayers can make adjustment assistance and redistribution policies difficult. Those who are likely to benefit from such policies are likely to move to, or stay in, areas where the assistance is greatest. Those who are likely to pay,in contrast, may gravitate to areas where both taxes

and public support are low. Market responses can often complicate well intended policy initiatives.

INVOLVEMENT OF STAKEHOLDERS

A positive labour market adjustment policy should also involve the participation of stakeholders in all stages of the process -- inception, design and implementation. With such involvement, especially in the early stages, the policy is more likely to have the necessary support for its effective implementation.

Compromises can be worked out early and the needs of the parties can be incorporated into the design of the program, rather than being left to be worked out indirectly in its implementation and administration. If the conflicts are such that the program is unworkable, it is better to find this out early at the inception and design stages, rather than to have the initiative killed through ineffective implementation.

Even if a consensus is not reached amongst the participants, having their involvement will provide them with an understanding and appreciation of the constraints and problems of the other parties. This in turn fosters mutual understanding that may carry over to other issues.

In general, we tend to think of the process as a means to an end -- that is, as an input to establish some mutually satisfactory outcome. However, it is a basic tenet of labour relations that the process itself is important, over and above the outcomes that are achieved. The process may become as important as the outcomes themselves. As well, having the parties involved in the process makes it much more likely that they can live with the outcome and that it will be lasting and workable.

Especially where unions are present, involving them in the process is crucial since they tend to have the institutional ability to implement or thwart policy initiatives. As well, their very existence can be threatened by the policies. This is the case, for example, with respect to many of the new workplace practices that are being discussed and implemented, such as employee participation, team production, quality circles, job enlargement, and individual and group incentive payment systems. Obviously, when there is a threat to their leadership role, or to basic union principles such as seniority, unions will oppose such initiatives. The challenge, therefore, is to involve them where feasible, or to reduce their opposition through other quid pro quos in the bargaining process.

Involving the stakeholders in all phases of the process of developing and implementing a labour market adjustment strategy also implies that the policy should be politically acceptable. Otherwise there is no guarantee that there will be sufficient resources devoted to effectively administering and implementing the policy initiative. As well, its impact can be thwarted by other initiatives rather than being enhanced by other complementary policies. It is a basic tenet of human resource planning that new initiatives like employee participation and team production are more successful when introduced, with other complementary policies, into a hospitable corporate culture. The same is likely to be the case with respect to the introduction of labour market adjustment strategies through the political process.

USE OF MECHANISMS OF MARKET AND COLLECTIVE BARGAINING

There are three main mechanisms for dealing with labour market issues, including issues of labour market adjustment. These mechanisms are: (1) the market, (2) collective bargaining, where available, and (3) legislation and regulation. This is often forgotten or

ignored by the legislative or regulatory authorities who tend to focus on laws and regulations to ameliorate labour market problems.

Numerous problems may arise because of this regulatory emphasis. It can be very costly, not only because of the cost of complying with the regulation, but also because of potential legal costs as they are administered through the courts or special tribunals. The legalistic nature may foster a litigatious rather than cooperative problem solving mentality -- if it is not illegal it can be done. The legal mechanism may also displace the market and collective bargaining as mechanisms for handling the problems. This may be more costly and lead to solutions that are less workable in the long run. As well, the market or collective bargaining may offset the effect of well intended policy initiatives as they work their way through the market or the collective bargaining process.

For these reasons a positive labour market adjustment strategy would regard the legislative and regulatory solutions as ones that are to be applied only after the market and collective bargaining mechanism are shown to yield unsatisfactory outcomes. This requires the identification of well-defined failures in those mechanisms. That is, the market and collective bargaining should be presumed to be "innocent until proven guilty" and not vice versa. It is important in this regard, however, that the jury be prepared to accept that neither markets nor collective bargaining should be called upon to solve all of our workplace problems. There is a legitimate role for the legislative and regulatory mechanisms to deal with issues that are inadequately handled by market forces or collective bargaining.

As a practical matter, for each policy issue, this entails going through the litany of potential market failures to determine precisely where and how the market succeeds or fails in handling the issue. This is useful not only in pinpointing the precise market

failure but also in suggesting the appropriate policy response. The response may be to correct the market failure, for example, rather than to provide the service through the public sector.The litany of market failures include: externalities whereby third parties are affected and the market does not extract compensation; public goods where the benefits are equally available to all, whether or not users pay; distributional issues; and market imperfections stemming from such factors as imperfect information and transaction costs.

It must also be emphasised, however, that the regulatory mechanism faces many of the same problems as does the market. They are real problems that do not disappear simply because they are handled by a political rather than a market mechanism. In that vein, the comparison is between an imperfect market solution and an imperfect public sector solution. The public sector solution also raises the spectre of political "rent seeking" whereby the parties use the political process and public sector to further their own ends, independent of the collective good.

Where it exists, collective bargaining can also be a viable mechanism for dealing with workplace problems, including adjustment problems. This is so because unions can articulate the preferences of union members and help delineate the internal tradeoffs that are involved amongst items like wages versus job security. Unions can also provide information to their members and help monitor and enforce legislative initiatives. They can also be a viable check against reprisals against workers who may lodge complaints. For these reasons it is important that, where present, unions are involved in each and every step of a policy initiative. Without their involvement, even if it is simply approving the initiative, unions can thwart the policy when it is implemented and enforced.

In seeking the involvement of the union, it is important to recognize that their political constraints may make it difficult for them to endorse policies that they may still support. Some policies may adversely affect particular groups even though they benefit workers as a whole. Others may be too uncertain for unions to endorse or they may involve too great a conflict with certain historic union principles. For these reasons, on some policy issues, the most that unions can do is to not actively oppose certain initiatives or to give only tacit approval. In that vein it becomes important to "read" union approval or disapproval and to determine when unions can be expected to be actively as opposed to more passively involved.

As a practical matter, the preferences of unions can be determined by the existence of certain provisions in collective agreements, especially in those agreements negotiated by powerful and well-informed unions. In the adjustment assistance area, for example, such provisions include those pertaining to advance notice, severance pay, layoff provisions, successor rights, and retraining provisions.

There is a school of thought, in fact, that argues that legislation should not be initiated for the general workforce unless it has already been initiated in the unionized sector through the collective bargaining process. This is so because its initiation in the union sector can be taken as evidence that workers want the policy and, more importantly, are willing to pay for it in terms of giving up other items in the give-and-take of collective bargaining. This is particularly informative because, as indicated, unions can be particularly effective in providing information and articulating preferences and internal tradeoffs.

While such information is useful as an input into the policy process, there are reasons to suggest that it may be inappropriate only to emulate policies that have been

bargained for in the union sector. First, there may be some issues that are regarded as "basic rights" and for which the parties should not have to give up anything in the process of collective bargaining. Second, unions may not bargain for certain items because they feel that such items should be uniformly applied over all sectors -- union and nonunion. Having them only in the union sector may make that sector less competitive. In such circumstances, unions may feel it appropriate to bargain for such items in the "political" rather than collective bargaining arena, so that any cost consequences apply to the union and nonunion sectors. Third, the union and nonunion sectors obviously differ in their needs and ability to pay for certain items. In such circumstances it may not be appropriate to regard the union sector as a precursor for legislating policy initiatives.

In spite of these caveats, it is useful to view collective bargaining provisions as a barometer for the introduction of certain policies through the legislative arena. It is more debatable as to whether they should not be introduced through legislation unless they have previously been introduced through collective bargaining.

MINIMIZE ADMINISTRATIVE COSTS

When the legislative and regulatory mechanisms are utilized it is important that they be used in a fashion that minimizes administrative costs. Such costs typically include the costs of the bureaucracy necessary to administer and enforce the program, as well as the administrative costs incurred by employers in operating and complying with the policy. They may also include the legal costs associated with the judicial system or tribunals. Such administrative costs involve the use of real resources, and often expensive resources when the legal system or a complex government bureaucracy is involved. This is distinct from transfer costs, where payments are made from one party

to another. In the case of transfer costs, real resources are not used up, but rather what is a cost to one party is a benefit to another party.

For example, in the pay equity area, typical pay equity adjustments are in the neighbourhood of 3,000 to 5,000 dollars per person receiving an adjustment. This is a transfer cost since what the employer loses is gained by the person receiving the redress. Real resource costs, however, may also be involved. For example, the required job evaluation procedures cost in the neighbourhood of 300 to 500 dollars per employee. Real resources may also be used in any legal proceedings or dealings with a tribunal. These are "eaten up" in the process of administering the policy, they are not simply transferred from one party to the other as are the pay equity awards.

A number of recent policy initiatives in Canada in fact do involve a substantial regulatory component with high real resource costs associated with their administration and enforcement. This is the case, for example, with pay equity initiatives that require job evaluation procedures and pay equity adjustments whether or not there has been a complaint. It is also the case with workers' compensation schemes that require the calculation of expected wage losses for making disability awards. Employment equity (affirmative action) initiatives can also involve substantial regulatory costs associated with the internal audit for determining the numbers and positions of the designated group employees and "matching" these with the numbers in the externally available labour force. These sorts of regulations, coupled with the administrative costs associated with new initiatives like the GST, can cumulate to substantial administrative costs of complying with the policies. These are over and above the transfer costs associated with redress to particular employees.

Clearly, the regulatory aspects of the policy initiatives serve other important functions and they may be necessary for effective enforcement. Nevertheless, in going that route, policy makers must be on guard to ensure that more resources do not get used up in administering and enforcing the policy than in providing redress to the designated target groups. The danger is particularly acute because regulatory initiatives are often instigated and designed by persons with legal training. It is understandable that their inclination will be towards initiatives that will involve regulatory and legalistic solutions to policy problems.

FLEXIBILITY, REVERSIBILITY AND PHASING

Policy initiatives should be flexible and capable of adapting to the changing circumstances that gave rise to their being instituted in the first place. This also means that they should be reversible, capable of being terminated or phased out if the need for the policy is no longer present or if the policy has successfully taken care of the problem.

This can be difficult, however, because bureaucracies often develop around the policy and in fact may develop a vested interest in it being perpetuated. This is the case with respect to not only administrative and enforcement bureaucracies within government, but also groups within private sector organizations that are responsible for implementing the policy. Their very existence may depend upon the policy being perpetuated.

Some employers themselves may have a vested interest in the policy initiative being continued or expanded, even if it is one that is costly to employers in general. They may have successfully adapted to the policy and hence they want it extended to their competitors or to potential new entrants to their sector.

Once instituted, policies may lead to rising expectations that are difficult to manage. Other groups with similar legitimate concerns obviously will have grounds to raise those concerns. For these reasons, policy initiatives may raise as many new concerns as the existing concerns they are able to handle.

As an element of flexibility, policies should generally be phased in so as to minimize any disruptive influence. The phasing could involve phasing in over time or perhaps being first introduced in large establishments or in the public sector. Within the public sector there are various elements through which the policy could be introduced in phases. For example, it could first be applied in the civil service, then in the broader public sector and then in crown corporations. Within crown corporations there are often different groupings with some being closer to a government department and others being closer to a private enterprise. Applying the policy first in the government sector and then phasing it into the various elements of the private sector enables mistakes to be rectified and provides information to the parties that may facilitate adjusting to the policy.

In addition to phasing, other ingredients of a flexible policy include a "sunset clause" whereby the policy expires by a certain date unless it is consciously renewed, and a mandatory evaluation of the policy, either on an ongoing basis or at a fixed date. This ensures that the policy need and effectiveness is being reevaluated and that the policy will be less likely to develop a life of its own.

Having the administration and enforcement of the policy handled by an existing bureaucratic structure, or a temporarily created structure, also minimizes the possibility of "empire building". It also makes more explicit the administrative costs of the policy by highlighting the functions that the agency must give up in handling the new responsibilities.

In the adjustment area, a flexible policy would be able to handle both downside adjustment problems (e.g., layoffs, plant closings) as well as upside adjustment problems (e.g., skill shortages). In the training area, for example, it is obviously desirable to retrain displaced workers for the new and emerging demands and hence it is desirable to have these two dimensions (displacement, new demands) coordinated. Otherwise there is a danger that the downside adjustment will simply focus on short term assistance and the shortage needs will be filled by others who are not in need of assistance.

INTEGRATION WITH OTHER PROGRAMS

A positive adjustment strategy involves integration and coordination with other programs. Otherwise there is a danger that the programs do not benefit from any positive interactive effects. Worse, they may work at cross purposes and offset the effect of each other.

In the training area, for example, retraining must be coordinated with labour market information to ensure that the proper training is being conducted. It should also be coordinated with mobility programs to ensure the retrained workers are properly placed and that it would not be more effective to assist an already trained worker to relocate. Retraining should also be coordinated with income assistance programs to determine when training requirements can be made a condition for receipt of income assistance.

With respect to provincial adjustment policies, coordination with other provinces is obviously crucial. This is so especially with respect to such issues as occupational licensing and certification standards and information sharing. Given the variation in regional growth patterns -- some being short run and transitory -- it is crucial that

different regions serve as safety valves, with regions experiencing the skill shortages absorbing the surpluses of other regions. This can only be done when there is good information on the shortages and surpluses and common standards with respect to occupational certification and licensing.

With respect to the federal government the need for coordination is even greater, especially because of the availability of federal support and cost sharing. The dilemma is that in many circumstances provinces would not spend the money in that fashion were it not for the conditions set by the federal government to be eligible for the assistance. In such circumstances, provinces are faced with a dilemma: bypass the aid, or access it simply because it is "free".

This is not meant to imply that the federal government is wrong in the goals it is trying to achieve. The provinces and federal governments may simply be pursuing different objectives, with the provinces interested in what is good for their residents and the federal government interested in what is good for the country as a whole. At a given point in time, for example, it may be in the interest of a particular province not to allow certain tradespeople to enter and practice their trade because that may take jobs from local residents. Nevertheless, it is likely to be in the interest of all provinces collectively to allow such interprovincial mobility and common licensing requirements.

The dilemma is greater in other areas such as regionally extended unemployment insurance benefits provided by the federal government. Provinces may welcome such support since it is a transfer from the federal government to high unemployment provinces. However, they may also realize that this may encourage the development of local labour markets that are geared simply to providing temporary jobs to build up eligibility for UI support.

A further problem with joint federal-provincial responsibility is that joint responsibility often leads to no responsibility. Each party shifts blame to the other for any shortcomings and problems that occur. For that reason a positive labour market adjustment strategy that involves federal-provincial coordination would involve well defined lines of responsibility.

ATTENTION TO PROGRAM DESIGN AND IMPLEMENTATION

A positive labour market adjustment strategy also involves attention to issues of program design and implementation. All too often policies are announced without administrative issues of design and implementation having been worked out -- or sometimes even "thought out". The design issues are often trivialized as mere "housekeeping" details to be worked out later. Nevertheless, the success of a program can depend on how it is administered and implemented.

The problem is compounded because the people who formulate new programs are usually not the same people who administer them. Again, divided responsibility can mean no responsibility. Without responsibility to carry out the program, policy makers may blame failure on ineffective implementation. Having not designed the program, those who implement it may blame problems on bad design. It is a basic tenet of human resource management that job enrichment in a vertical fashion may be necessary to ensure responsibility and quality control and to avoid "buck passing". The same may be true with policy design.

As a practical matter, a sensible strategy would be to require that the design and implementation issues be worked out before a new policy be put in place. This may also

provide new information on the viability and consequences of the policy since many of these cannot be foreseen at the conception stage. It also highlights loopholes that may be dealt with at the design stage rather than once vested interest groups have been built up around the loopholes.

In that vein, it may be sensible to have a group act as "devil's advocate" trying to determine: "How can we evade this policy once it is in place?" Such responses can then be circumvented in the design of the policy.

There are numerous issues of program design and implementation that are important to consider in developing new policies. For example, in providing income assistance there is the issue of whether the unit of account should be the individual or the family. In general, we tend to think of the family as appropriate because that is often the relevant unit for decision making and for providing access to resources. However, not all individuals within the family may have equal access to those resources or an equal say in how they are allocated. This is especially an issue for women who feel that their eligibility for certain programs should not be jeopardized because of alleged access to their husband's income .

Another important design feature is the "taxback" rate that is often implicit when program participants lose eligibility or a subsidy if their earned income increases. Such a taxback obviously reduces the cost of the program, but it may also reduce the incentive to work and earn income. Clearly, tradeoffs are involved as is almost always the case in program design.

FULL EMPLOYMENT ECONOMY

The final element of a positive adjustment strategy is to have the overall economy as near to full employment as possible. It is much easier to adjust around a growing economy than one that is stagnant. Growth leads to new jobs and to the means necessary to provide income assistance should that be necessary. Full employment also leads to voluntary job changes that in turn vacate new openings. It also facilitates using the labour market as a first line of defence against the problems of poverty.

Ensuring full employment, of course, is easier said than done and it can entail costs in terms of inflation. In assessing the tradeoff between inflation and unemployment, however, it is important to recognize the desirable distributional consequences of full employment. It is true that the poor are harmed by inflation, but this is reduced somewhat by the fact that they tend to be net debtors as opposed to creditors, the assets that they have tend to rise in value with inflation, and the items they consume are not subject to unusually high price increases. More importantly, the poor tend to benefit disproportionately by full employment as they are more likely to be employed and to receive wage increases.

Unfortunately, provinces have little policy control over the monetary and fiscal policy that influences the aggregate state of the economy. As well, federal monetary and fiscal policy may well be geared to restraining inflationary pressures in particular regions -- currently in the overheated Ontario economy.

SUMMARY

A positive labour market adjustment strategy involves a number of interrelated elements that should be considered by policy makers in establishing policy responses to labour market adjustment problems.

1. The policy responses should encourage change in the direction of, rather than against, basic market forces. Otherwise, the forces for change will likely cumulate and inevitably result in more disruptive adjustments. Continuous, incremental, marginal adjustments are likely to be less disruptive and more equitable than inframarginal adjustments that are likely to occur if the forces of change are simply suppressed and allowed to build up. This also implies less policy emphasis on income support and more on adjustment assistance.

2. Equity and fairness considerations pertaining to distributional issues are important not only in their own right, but also because they may reduce resistance to otherwise efficient changes in the direction of market forces. Equity considerations may also be compatible with efficiency, if the value added from human resource development programs is greater for disadvantaged workers than the more advantaged workers.

3. Labour market adjustment policies should also be efficient in targeting their benefits to the target groups by assisting as many of them as equitably as possible (horizontal efficiency), without having the benefits spill over into the hands of the nontarget groups (vertical efficiency).

4. The labour market should be regarded as a first line of defence to provide "decent jobs at decent wages" to ameliorate problems of poverty and inequality. This is important to enable people to earn their income rather than receive it as a transfer payment -- a policy that is preferred by both recipients and taxpayers. The problem is that many of the new jobs that are being created are in the low wage service sector, leading to wage polarization and a "declining middle".

5. Involvement of stakeholders at each and every stage -- inception, design, and implementation -- is a key ingredient of a positive labour market adjustment strategy. This is especially the case with respect to unions where they are present.

6. The mechanisms of the market and collective bargaining should be utilized wherever feasible. Only when they exhibit well defined failures, should regulatory solutions involving legislation, the courts and regulatory agencies be evoked. It is important in this regard, however, to recognize that neither the market nor collective bargaining are likely to be able to solve all of our workplace problems, including those that arise from adjustments to change.

7. A positive labour market adjustment strategy involves policy responses that minimize the administrative costs of providing adjustment assistance and redress to particular groups. Administrative costs -- which become high once a bureaucracy or the legal system is extensively involved -- involve real resource costs which are used up, as opposed to transfer costs, which involve a cost to one party but a corresponding benefit to another.

8. A positive labour market adjustment strategy should be flexible and adaptable, capable of adjusting to the changing economic circumstances, and of dealing with

both "upside" and "downside" adjustment problems. This involves minimizing permanent bureaucracies and empire building. It also involves "sunset clauses", mandatory evaluations, and the phasing-in of policies, both over time and across different sectors.

9. A positive labour market adjustment strategy involves integration and coordination with other programs to avoid overlap, duplication, shifting of responsibility,and working at cross purposes. This is especially important with respect to different provinces as well as with the federal government.

10. Attention to administrative issues of program design and implementation is also crucial. Otherwise, there is little pressure to think through the full ramifications of a policy, and well-intended policies may flounder because they are poorly designed or implemented.

11. The previously mentioned elements of a positive labour market adjustment strategy will be more effective in a reasonably full employment economy. Adjustment is always easier in a growing economy with full employment.